

Private Investments in Public Preschools



**Pay-for-Success to expand the Child Parent Center
Program**

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Steps in social impact financing through a Pay-for-Success contract

(sometimes called social impact bonds SIBS)

1. Find private investors willing to spend \$5 to \$20 million or more to expand promising services at the state or local level.
2. Identify what social, educational, or health services are effective and actually save governments more money than they cost. Ex. Programs for recidivism prevention, supportive housing, early childhood interventions
3. Identify “success targets” – indicators that the services are generating cost savings to governments. Examples: reduction in jail days, reductions in emergency room visits, reduction in special education placement rates.
4. Governments pay back private investors plus interest when an evaluation finds that the projects meet the targets for success.

Evidence from the Child-Parent Centers

- From cost-benefit analyses in 2002 and 2011, results were reported that participation in the preschool program was associated with a reduction in special education placement of 0.7 years.
- We concluded that the cost savings from special education covered 62% of the cost of the preschool intervention – not enough by itself to pay for preschool through a SIB.
- The Harvard Social Impact Lab and Goldman Sachs analysts suggested that our results were an underestimate of the potential cost savings.

Two examples of recent U.S. social impact PFS initiatives for children

Initiatives	Private investment	Outcomes triggering success payments
Utah High Quality Preschool Program	\$4.6 million	Reductions in rates of special education placement through gr. 6
Chicago Child-Parent Center early education program	\$16.9 million	Reduction in special education placement relative to comparison group through gr. 12. Increase in K and 3 rd grade scores.

In addition to the private investors and the government partner, three other parties are involved

- (1) Philanthropists provide funds to *guarantee the investment* and may help pay for the administrative or evaluation costs.
- (2) Outside evaluator conducts the impact assessment with a rigorous study design specified in the contract.
- (3) Intermediary – oversees provision of services and the outside evaluator and ensures that success payments are made.

For preschool PFS initiatives, a major source of cost savings in the near term is a reduction in special education costs.

If success is defined primarily as reductions in special education rates (relative to a comparison group),

- Need to make sure that the availability of incentives does not induce service providers to misrepresent their effectiveness.
- School districts could claim success by simply choosing not to provide children in special education services.
- Could observe preschool's effects on kindergarten readiness and third grade test scores as well.
- SRI's evaluation of the Chicago SIB focuses on prevention of "mild" special education diagnoses rather than severe.

Additional PFS-funded preschool initiatives have received feasibility grants to start moving them toward implementation

- The federal ESSA (Every Student Succeeds Act) encourages the use of PFS in expanding promising education services.
- New federal Preschool Development Grants program made 7 feasibility grant awards of \$300-400K to local or state organizations to help bring promising projects to scale.
- The 7 awardees proposed high-quality programs that were likely to cause improvements in kindergarten readiness, school attendance, special education avoidance, and socio-emotional learning outcomes.

FEASIBILITY grants awarded for pre-k PFS studies (Dec. 2016)

Grantee	Preschool outcomes	Potential payors mentioned
Clatsop County, OR	Academic and socio-emotional outcomes at end of pre-K, attendance, special educ. , behavior referrals, 3 rd gr. reading	County, school districts, regional Medicaid provider
Cuyahoga County, OH	Academic and socio-emot at end of pre-k, grade retention, 3 rd gr. reading,	County and "other stakeholders"
Legacy Charter School, SC	Academic and socio-emotional outcomes at end of pre-K	To be determined
Mecklenberg County, NC	Academic and socio-emot at end of pre- and through gr. 3, retention, absenteeism, behavior referrals, early warning system for school dropout	To be determined
Minnesota Department of Education	Academic and socio-emot at end of pre-k and through gr. 3, special ed. , retention, behavior incidents, absenteeism, teacher turnover	State and/or school districts
Napa Valley School District, CA	Academic and socio-emot and ipad proficiency at end of pre-k, academic outcomes through gr. 3 including ELL	School district
Santa Clara County, CA	Academic and socio-emot. measures of K readiness, reading and math in gr. 3, absenteeism, special ed. , ELL language outcomes.	Santa Clara School District
Ventura County, CA	Academic and socio-emot. learning at end of pre-k and academic outcomes in gr. 3	Local governments and state agencies TBD

PFS for the Chicago Child Parent Center early education program

- Was the first to move from Paying for Success arising from government cost savings to Paying for Desired Outcomes not explicitly connected to cost savings.

Success payments:

- The School District agrees to pay \$9,100 per child per year for avoidance of special education placement. This payment is based on the district's estimated cost savings.
- The City of Chicago also agrees to pay \$2,900 for each child make "kindergarten ready" and \$750 per student for meeting proficiency targets in grade 3.

Results from the SRI SIB evaluations from Wave 1 and 2 for Chicago

The first evaluation reported Kindergarten readiness outcomes for the first cohort.

Results: 61% of CPC children were deemed ready for K.

Payment: The success payment to the investors was **\$500,705 for K ready** (173 children at \$2,900 each, success rates capped at 50%)

The second evaluation reported K readiness for second cohort and special education placement outcomes for first cohort.

Results: 41.6% of kids ready for K, 0.56% reduction in special ed. (4.94% vs. 4.38% for 344 kids; placement diverted for 2 kids)

Payment: **\$893,791 for K ready + \$17,597 for special education.**

Three points to consider

- Which outcomes should generate success payments – outcomes clearly identified with cost savings only or desirable outcomes as well?
- Legal contracts may describe very specific language describing the evaluation protocol – how much deviation from the contract language is allowed? The Chicago SIB contract allows for some autonomy for the evaluator.
- The inherent under-weighting of evaluation in determining when and how much investors get paid. Success in PFS requires low transaction and evaluation costs. Are evaluations in PFS sufficiently well funded?

Paying for desirable outcomes that don't generate cost savings

- Assuming total revenues received by the payor government do not increase, expenditures on other items in city or county budgets must be reduced if success targets are met.
- In Minnesota's PFS pilot, clear language exists in legislation requiring reductions in an agency's appropriations in order to make pay for success payments to investors.
- In contrast, if success payments represent realized cost savings to the payor government, then spending in other budget categories can remain unchanged.

Specific risks created by paying for desirable outcomes vs. paying for outcomes that generate government cost savings

- Political risk (Burand, 2013)- will these promises to make success payments (and reduce other components of the budget) be agreeable to agency heads and taxpayers in the future?
- Appropriations risk as a type of political risk – will the payor government allocate enough funds to pay the investors if no cost savings are realized but success targets are met?
- Chicago's PFS contract includes specific language stating that credit ratings agencies will be notified if required payments are not made.
- Ways to mitigate appropriations risk: pre-paid sinking funds, authorization of multi-year appropriations.

Why SIBS do not favor comprehensive evaluations

- Investors are paid back only when cost savings occur.
- But in reality, the return to the investor is determined after subtracting transaction costs from the cost savings.
- What kinds of costs are involved? The cost of the intermediary and the costs of the evaluation.

In conclusion, social impact financing of preschool via PFS contracts

- Provides additional funding to expand a proven educational program that not only benefits the participants and society but saves governments more money than they cost.
- Emphasizes the importance of evidence-based programs and the role of impact evaluation and cost-benefit analysis.

Three concerns

- (1) The movement away from success payments based on realized cost savings to success payments made for achieving “desirable outcomes” is likely to make PFS initiatives less attractive to private investors due to higher risk and will limit the size of these projects.
- (2) The impact evaluations cannot be completely described in the PFS contract and the evaluators are given significant autonomy. Will divergence from the evaluation protocols fuel criticism among PFS skeptics?
- (3) The need to minimize transaction costs leads to an underfunding of evaluation. Why are special education rates so low in the SIB study schools compared to the Chicago district as a whole? Why did school readiness fall from cohort 1 to cohort 2? SIBS underfund evaluation.



Focusing on early childhood interventions, we know from previous CBAs that well-targeted interventions may generate social benefits in excess of costs

Ex. Monetizable benefits of preschool in chronological order

1. reductions in special education spending
2. reductions in juvenile justice costs
3. reductions in education costs due to grade retention
4. increases in tax revenues to higher ed attainment
5. increases in private earnings of preschool participants
6. reductions in administrative costs associated with welfare programs
7. reductions in costs associated with adult crime